

FDIC State Profile

Spring 2005

West Virginia

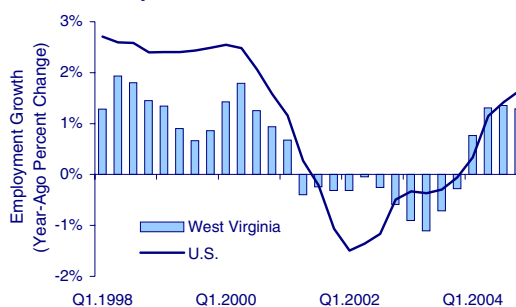
West Virginia experienced significant economic growth in late 2004.

- West Virginia's economy continued to improve in late 2004 with steady overall payroll growth (See Chart 1). Some of this increase is attributed to increased coal industry employment, driven by higher energy prices. The post-recession trend of declining manufacturing sector jobs appears to be abating, leading to greater economic traction for the state.
- Remaining manufacturing payrolls are still vulnerable to global labor competition. Continued economic growth in the state is contingent on job creation in industries that are not exposed to global trade pressures. As such, job creation in the health care and hospitality sectors has proven vital to the state's economic recovery.
- Jobless rates in late 2004 showed significant improvement from year-ago levels. Among all counties in the state, all but two experienced declining jobless rates. Northwest regions of the state, which had been suffering from perniciously high levels of unemployment, saw even greater improvement. Following a post-recession slump, state wage and salary growth accelerated ahead of the nation during the past quarter.

Residential real estate activity is contributing to growth and lending.

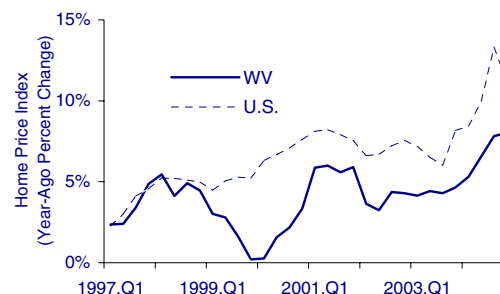
- Residential real estate has been a growth sector of the state's economy as reflected by 2004's record-setting total residential housing permit issuance. Construction and development (C&D) lending at the state's community banks¹ jumped 79 percent during 2004. Subsequently, C&D loans reached 3.1 percent of assets at period end, up from 1.8 percent a year earlier.
- The state is ranked second in the nation for percent growth in total seasonally-adjusted home sales. Much of this growth is driven by the large number of retirees moving to the state, seeking an alternative to record home prices along the eastern seaboard. While statewide home price appreciation remains below national rates, prices

Chart 1: West Virginia's Employment Improved Substantially in Late 2004



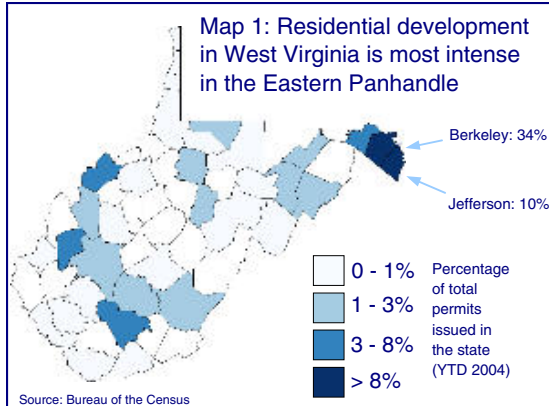
Source: Bureau of Labor Statistics

Chart 2: West Virginia Home Prices Approach National Rates



Source: Office of Federal Housing Enterprise Oversight

Map 1: Residential development in West Virginia is most intense in the Eastern Panhandle



Source: Bureau of the Census

¹Community banks have assets less than \$1 billion and exclude specialty and de novo banks.

State Profile

steadily increased in late 2004 (See Chart 2). Consequently, state construction sector payrolls also experienced continued growth in the fourth quarter.

The Eastern Panhandle is thriving, while the state's main metropolitan area lags behind.

- **Berkeley, Morgan, and Jefferson** counties make up the **Eastern Panhandle**, an area of significant economic growth, as compared with the rest of the state (See Map 1). Collectively, this area produced more than half of all housing permits issued in the state in 2004. Much of this growth is the result of the area's close proximity to the burgeoning Washington, DC metropolitan area. Blue-collar and service-industry workers are relocating to the panhandle in search of affordable housing, while long-time residents of the panhandle are commuting to the District and Northern Virginia in search of higher-paying jobs.
- Comparatively, economic growth in other areas of the state has been more restrained. **Charleston**, the state's core metropolitan area, has not sustained any increases in building permits from a year ago. Home price appreciation in the region has also fallen behind state trends. However, this region's historically moderate rates of joblessness may mitigate this slump.

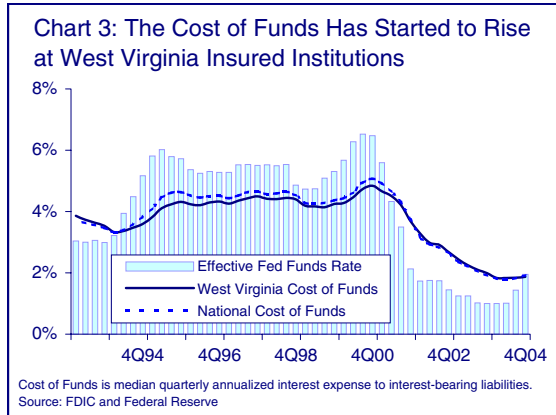
West Virginia community banks remain in good condition.

- Earnings performance was solid at the state's community banks. Net interest margins were in line with the national average at 4.03 percent. However, return on assets at 0.97 percent was just shy of the industry average of 1.10 percent at year-end 2004. Net income grew 8 percent to \$90 million during 2004; controlled expense growth contributed to the increase.
- Loan growth was sturdy and improved over year-ago levels. Total loans grew 10 percent and now compose roughly 65 percent of assets, up from 62 percent a year earlier. Loan activity is centered in real estate related products with the largest growth having occurred in C&D, home equity lines, and multifamily obligations. Overall loan quality continued to improve, but the past due loan ratio of 2.22 percent remained much higher than the national average of 1.62 percent.

The use of noncore funding sources has increased, and funding costs have headed higher.

- At community banks in the state, loan growth was funded primarily through increases in noncore sources, such as brokered deposits and jumbo CDs. The merger adjusted growth rate of noncore deposits approximated 12 percent during 2004. This compares with just a 4 percent rate of growth in core funding sources.

- For much of the late 1990s, insured institutions in the state had funding costs that were lower than the federal funds rate especially during periods of rising rates. Should rates continue to rise, funding costs will likely lag again (See Chart 3).



West Virginia at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.3%	-0.3%	-0.6%	-0.3%	0.9%
Manufacturing (9%)	-1.3%	-5.5%	-4.4%	-6.2%	-2.7%
Other (non-manufacturing) Goods-Producing (8%)	6.2%	0.4%	-9.3%	8.4%	-0.1%
Private Service-Producing (64%)	1.3%	0.3%	0.7%	-0.6%	1.9%
Government (19%)	0.4%	-0.1%	0.8%	0.4%	0.1%
Unemployment Rate (% of labor force)	5.0	5.8	6.1	5.2	5.4

Other Indicators	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Personal Income	N/A	4.2%	2.1%	6.1%	4.9%
Single-Family Home Permits	2.6%	16.8%	11.7%	4.6%	3.2%
Multifamily Building Permits	-56.9%	-7.5%	54.7%	109.8%	-88.5%
Existing Home Sales	14.2%	14.7%	11.1%	17.4%	0.0%
Home Price Index	8.0%	4.6%	4.3%	5.9%	3.3%
Bankruptcy Filings per 1000 people (quarterly level)	1.49	1.49	1.49	1.25	1.21

BANKING TRENDS

General Information	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Institutions (#)	72	74	76	79	77
Total Assets (in millions)	19,847	18,978	20,293	19,070	18,339
New Institutions (# < 3 years)	1	3	3	5	5
Subchapter S Institutions	4	3	3	2	2

Asset Quality	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Past-Due and Nonaccrual Loans / Total Loans (median %)	2.26	2.41	2.56	3.16	2.90
ALLL/Total Loans (median %)	1.16	1.14	1.22	1.19	1.13
ALLL/Noncurrent Loans (median multiple)	1.95	1.58	1.31	1.40	1.32
Net Loan Losses / Total Loans (median %)	0.16	0.17	0.16	0.17	0.20

Capital / Earnings	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Tier 1 Leverage (median %)	9.80	9.45	9.60	9.76	10.12
Return on Assets (median %)	0.95	0.92	0.92	0.84	0.91
Pretax Return on Assets (median %)	1.38	1.31	1.38	1.17	1.37
Net Interest Margin (median %)	4.23	4.12	4.25	4.15	4.39
Yield on Earning Assets (median %)	5.76	5.93	6.77	7.69	8.18
Cost of Funding Earning Assets (median %)	1.53	1.81	2.50	3.56	3.83
Provisions to Avg. Assets (median %)	0.13	0.17	0.20	0.19	0.18
Noninterest Income to Avg. Assets (median %)	0.50	0.51	0.50	0.48	0.48
Overhead to Avg. Assets (median %)	3.00	2.99	2.90	2.96	3.03

Liquidity / Sensitivity	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Loans to Assets (median %)	66.3	63.7	62.3	63.4	64.6
Noncore Funding to Assets (median %)	14.9	14.0	12.6	12.3	12.7
Long-term Assets to Assets (median %, call filers)	25.8	28.9	24.7	23.0	20.5
Brokered Deposits (number of institutions)	11	10	8	4	4
Brokered Deposits to Assets (median % for those above)	1.2	0.8	1.1	0.7	1.7

Loan Concentrations (median % of Tier 1 Capital)	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Commercial and Industrial	70.6	66.5	59.2	59.6	60.3
Commercial Real Estate	158.6	151.2	130.7	116.7	118.3
Construction & Development	13.4	10.7	9.3	8.8	5.9
Multifamily Residential Real Estate	1.2	1.0	1.2	1.5	0.9
Nonresidential Real Estate	123.2	117.8	113.8	106.7	106.5
Residential Real Estate	273.8	278.3	279.3	280.2	282.0
Consumer	74.3	87.0	85.7	106.8	106.0
Agriculture	2.3	2.2	2.1	2.4	3.1

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Charleston, WV	23	4,229	< \$250 mil.	61 (84.7%)
Huntington-Ashland, WV-KY-OH	28	3,453	\$250 mil. to \$1 bil.	8 (11.1%)
Hagerstown-Martinsburg, MD-WV	16	2,641	\$1 bil. to \$10 bil.	3 (4.2%)
Wheeling, WV-OH	15	2,476	> \$10 bil.	0 (0%)
Parkersburg-Marietta, WV-OH	24	2,179		